

July 1, 2005

To The Honorable Council
City of Norfolk, Virginia

Dear Lady and Gentlemen:

This letter serves to formally transmit the City of Norfolk Fiscal Year 2006 Approved Operating Budget, Capital Improvement Plan and Annual Consolidated Plan. Included in this annual plan are the following:

General Fund Operating	\$ 726,401,200
Water Enterprise Fund	\$ 73,476,700
Wastewater Enterprise Fund	\$ 22,211,400
Storm Water Fund	\$ 7,393,000
Parking Fund	\$ 21,218,800
Other Funds	\$ 31,776,100
Annual Capital Improvements	\$ 170,200,722
Annual Consolidated Plan	\$ 10,540,495
Total	\$1,063,218,417

This represents a total Financial Plan of \$1,063,218,417.

While the FY 2006 Approved Budget addresses revenues and expenditures for the fiscal year beginning July 1, 2005 and ending June 30, 2006, the City continues to take into account a long-term perspective when assembling the annual budget. The five-year outlook is developed with a “look back – look forward” approach based on economic projections and five to ten year historical trends and patterns. The five-year outlook continues to reflect challenges for Norfolk, and the City has taken a pragmatic approach to addressing these challenges.

Norfolk continues to thrive and grow. We begin this fiscal year with a momentum that if managed properly will serve us well into the future. The past investment in our downtown and the Ocean View areas are now spurring unprecedented private development. While much work remains to be done, Norfolk is attracting a level of private investment that will continue the renewal that has been strategically planned for well over the last decade.

The FY 2006 Approved Budget is a balanced budget that addresses many of the community's needs and adheres to best practices in financial management.

In preparing this Budget, the City's basic goals continue to be the cornerstone:

- To continue building and maintaining strong neighborhoods;
- To protect and nurture our young people through support for healthy families, education, recreation and libraries;
- To continue to achieve a safe and clean City; and
- To make investments that promote growth and financial capacity.

These goals have been overlaid this year with two extremely important objectives: strive to reduce the property tax burden on our residents and achieve a structurally balanced budget.

The FY 2005 budget was balanced using \$17.5 million of one time revenue to fund ongoing expenses. This simply passed the challenge on to FY 2006. For the stability of the City, we allowed the structural imbalance for the short term, but it was never to be a long-term practice. The FY 2006 Approved Budget relies on ongoing revenue for ongoing expenditures thereby achieving a budget that is balanced for subsequent years.

REVENUE OVERVIEW

General Property Tax

Total general property taxes are expected to yield \$206,599,000 which is approximately \$16.8 million more than the current fiscal year.

Of most interest in this revenue category is real property taxes. By the end of 2005, assessments will grow overall by 16.5 percent, our highest level in 16 years. Caused by a soaring demand for housing and attractive interest rates, home sales have grown. Given that property assessment must be based on fair market value, the assessed values on homes have grown accordingly. This has created a "good news, bad news" scenario for the City. On one hand, these additional revenues to the City are the result of major economic investment which was intended to raise needed funds to support other communitywide revitalization. On the other hand, given the rapidness of the increase, some of our residents are challenged to keep pace as these assessments translate into higher property tax bills.

It must be clearly recognized that despite the double-digit growth of real property taxes, taken alone, this revenue category comprises only 20.6 percent of the City's overall revenue budget. While this category of revenue is growing, other categories are being outpaced by expenditures. Also, it should be noted that even a modest reduction for individual residents in their tax rate, will have a significant impact on the

City's revenues for public services. A one-cent tax rate reduction is a loss of \$1.1 million to the City's General Fund. The Approved Budget, nevertheless, does include a tax reform strategy which is fiscally responsible.

Other Local Taxes

In the category of Other Local Taxes, the City is projecting an overall increase as compared to last year's Approved Budget, for a total of \$143,830,400. This category of revenue includes a wide variety of specialty taxes; among which are utility taxes, business license taxes, franchise taxes, motor vehicle taxes, and cigarette taxes. Specific taxes of note include:

- Sales and use tax which is projected to generate \$29.1 million (a 4.3 percent increase)
- Admissions taxes of approximately \$4.3 million (following a three-year declining trend)
- Hotel and motel room taxes of approximately \$6.8 million (a 7.9 percent increase)
- Restaurant food taxes of \$22.5 million (a 5.7 percent increase).

Federal/State Revenues and Impacting Policies

While the State has made great strides improving some of its revenues to the City, other public policies will present challenges to both our residents and our City. For example, the capping of the Car Tax reimbursement is expected to result in residents paying a larger share of the personal property tax on vehicles in the future. On the other hand, any reductions in aid from the Commonwealth or limitations on existing local revenue streams will place additional stress on the City. The State and the localities must continue to be partners and work together for the benefit of our residents.

Charges for Services

Currently the City is under billing Medicare, as well as private insurance companies, for its Fire-Rescue services. The Federal government has provided a limited time frame to increase Medicare reimbursement rates. The Approved Budget includes an increase of 25 - 30 percent above the current Medicare allowable rates. This increase ensures compliance and maximizes billing opportunities to Medicare and private insurance companies. It is estimated that the emergency medical billing and collections system will generate \$2,238,000 in revenues next year. The increased fees will generate \$250,000 of this amount.

The Southeastern Public Service Authority (SPSA) issued a rate increase for the City's use of the regional landfill. These fees for depositing our refuse will be raised from \$46 per ton to \$51.98 per ton. This will result in an overall increase in cost of

\$1,731,900. The increased cost will result in a rate increase for solid waste services. In practical terms, this translates to a rate change from \$10.45 to \$12.75 a month for the average household. Even with the increased rate, the City General Fund will continue to supplement the cost of solid waste services by \$8.5 million in that this is not a full cost-recovered operation.

TAX REFORM

Based on concerns expressed by those facing these dramatic increases, the FY 2006 Approved Budget includes the equivalent of a 7.1-cent rate reduction amounting to \$7.7 million in reduced revenues to the City. Government has an inherent responsibility to ensure equity and serve the needs of its public in a manner that addresses the unique situations of those who require more help than others. Certainly our senior, disabled, and moderately low income residents need more help than others. Therefore, the tax reform strategies presented in this Budget, while providing a general population reduction, provide additional assistance to those groups needing more.

The FY 2006 Approved Budget includes a tax rate reduction of five cents per \$100 of assessed valuation (AV) for all property owners. Giving due consideration to the economic unpredictability of property taxes, I feel this is an action that the City can financially afford without having to defer needed improvements. Considering the volatility of the real estate market, this is not the time in which to make deep, permanent changes that may haunt us in years to come. One need only look at places like the State of California to learn this lesson. In California, where they have implemented massive property tax reductions, they are now faced with concurrent massive service reductions within a short period of time and the need to raise the taxes again as well as impose user fees for basic services.

Second, taking into account the pressures of living on a fixed income, the FY 2006 Approved Budget includes adjustments to the Senior/Disabled Tax Relief Program. Changes to this program include:

- Increasing the income cap eligibility limit from \$34,450 to \$50,000, the current State maximum that Norfolk is authorized to approve.
- Increasing the net worth cap from \$100,000 to \$200,000, exclusive of the value of their home. This also represents an increase to the maximum amount allowed by the state.
- Increasing the income cap for 100 percent exemption from property tax from the current \$12,900 to \$19,228.

The FY 2006 Approved Budget provides for a tax deferral program for senior and disabled citizens. This will allow them to defer paying that portion of their real estate taxes which represents an increase in their taxes between 2004 and 2005, provided

they are 65 years of age or disabled. The deferred taxes will not become due until the residence is sold. To be eligible for the deferral program, the applicant will need to meet the following criteria:

- Residence must be owner occupied.
- Deferred taxes will be assessed at an interest rate of five percent a year.
- Applicant's annual income shall not exceed \$50,000 with a net worth not exceeding \$200,000 excluding the residence.

Eligible residents may only participate in the exemption or deferral program, but not both. The estimated cost of the exemption and deferral programs is \$1.7 million.

Third, in order to help those individuals who are struggling on low to moderate incomes, the FY 2006 Approved Budget provides a grant program entitled the Residential Property Ownership Preservation Program (RPOP). The purpose of the program will be to provide a grant of \$150 to eligible homeowners to assist them with continued ownership and occupancy of their home.

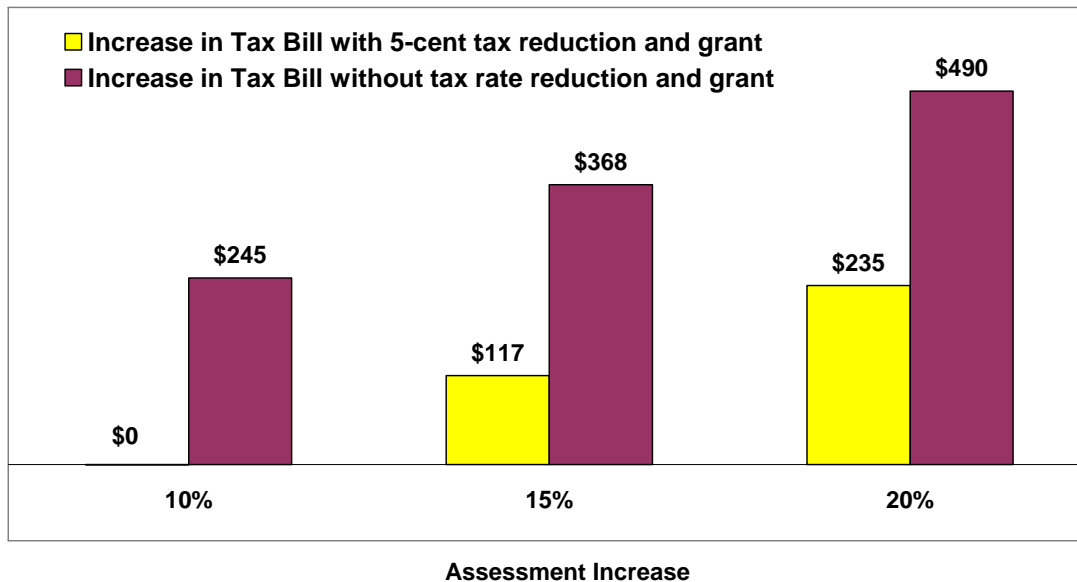
Specifically, this program will be targeted to homeowners who have:

- Occupied their residence for at least three years
- A household income up to \$50,000
- A residence assessed at a total value of no more than \$175,000 and has experienced at least a 10 percent increase in the assessed value between 2004 and 2005, and
- A net worth less than \$200,000, exclusive of the value of their residency, and
- Are not delinquent in their property tax payments for any prior years.

This program, modeled somewhat after similar programs in Arlington and Alexandria, Virginia, is conceptual and will require legal review prior to implementation. We estimate that it may attract approximately 3,300 participants who will hopefully use the grants towards exterior home beautification or other home improvement projects. These grants will help us further the *Come Home to Norfolk Now* initiative. Specifically through this Residential Property Ownership Preservation Program, we will be able to help residents maintain their home in Norfolk. The total expenditure and cap for RPOP is \$500,000. Grants will be made on a first come-first serve basis up to the maximum budgeted amount.

Considering the general tax rate reduction and the grant program, the following chart depicts an example of the assistance we are providing as compared to the normal 2006 tax imposition.

EXAMPLE: Compares the increase in taxes with and without tax relief for a \$175,000 home in 2004 that experiences a 10%, 15% or 20% growth in assessments in 2005



Under this multi-facet tax strategy, one other element is important to pursue and that is positioning us for the future because it is recognized that further issues may arise in FY 2007. Therefore, I request the Council Committee for Finance and Infrastructure serve as a Steering Panel to review other longer term strategies the City Administration is reviewing. These efforts will include:

- Not for Profit Alternative Resource Plan. Under this initiative, it is envisioned that the City will work with the larger non-profits such as Sentara, the Port Authority, and so forth, to identify other resources they can provide the City that results in tangible savings or additional revenues for the City. The use of Port Authority debt issued proceeds for the cruise terminal was an excellent example and model for other alternative resource infusions into the City.
- Assign staff from the Administration, Assessor and City Attorney offices to ensure only the eligible not-for-profit components of operations remain untaxed. Enterprise ventures by non-profits, to the extent legally permissible, should be taxed.
- Identify a legislative package to take to the 2006 General Assembly to provide the City with additional categorical tax relief authority.
- Identify user fees to relieve general taxpayer burden where such an approach is reasonable, based on a Council public policy.

This package of follow up efforts should be ready for the full City Council's deliberation no later than late October, 2005.

EXPENDITURE OVERVIEW

The FY 2006 budget comprises both a summary of General Fund Operating Budget expenditures of \$726,401,200 and a Five-Year Capital Budget Plan with an emphasis on the next year's general capital improvement programs of \$85.3 million and \$168.4 million total capital improvements.

On the Operating side of the Budget, the City expends over 60 percent of its budget for education, public safety, health and human services alone. This year's Approved Budget once again has been hit with inflationary cost increases in the areas of gas, fuel, electricity, and established contracts for services (custodial, mail/reprographics, and so forth). Despite these challenges, the Approved Budget is a comprehensive plan of expenditures that meet the Council and community's priorities.

The remainder of the expenditure overview is outlined under each of the City's six priorities: community building, education, public safety, economic development, regional (and other) partnerships and public accountability.

Community Building

Norfolk is at a dynamic point in its history. At a time when there is renewed interest nationally in urban living, the City is realizing tremendous success in restoring and redeveloping its neighborhoods.

Through the *Come Home to Norfolk Now* initiative, the City is targeting programs to encourage and support investment in its neighborhoods – and to promote the diversity of Norfolk's housing: historic, modern, traditional, waterfront, urban, senior, family, first-time home buyer, renter and student. As a result of *Come Home to Norfolk Now*, innovative new programs such as the Norfolk Residential Pattern Book, Tax Abatement for Rehabilitation, and the Neighborhood Design and Resource Center are now in place. These programs assist residents, as well as real estate, architectural, financial, and construction professionals in learning more about Norfolk's neighborhood and design opportunities.

In addition, the City of Norfolk has been aggressively tackling code enforcement issues that contribute to blight in our neighborhoods. During the last year, we launched the Healthy Neighborhoods Initiative where we met and spoke to residents throughout the City regarding their code compliance concerns. A special "Call to Action" went out Citywide that originated over 1,727 new reports to the Norfolk Call Center for immediate code enforcement action.

In this Budget, I take the next steps to enhancing our code enforcement and blight prevention activities by formally creating a new Department of Neighborhood Preservation. Part of this department will be the enhanced code enforcement, prevention, community outreach and public education such as the Neighborhood

University. A division of the Department will be Neighborhood Revitalization including PACE, the GEM program and lead staffing for the neighborhood plans. Also, an expanded responsibility will be placed in this department to ensure fair housing, community dispute resolution (including landlord tenant facilitation), and civic engagement.

As part of the mandate for this new department, it is my expectation that there be more concerted outreach programs both from the education and enforcement standpoint. We must enlist the help of the community to improve the quality of their neighborhoods if we are to be successful.

To supplement these efforts, I am providing funds in support of three additional positions for a Bulk Waste Strike Team which will continue to expand our successful pick up efforts. The staff also will be working diligently to create a website that will be able to track code enforcement activities to enhance our service accountability.

To assist with the rejuvenation of blighted areas, we are continuing to provide \$4.0 million to NRHA for the Neighborhood Conservation and Redevelopment programs.

The City has also identified over 600 properties through the GEM Program that we have begun to acquire for future development purposes. Funding of \$1.1 million is provided to pay for administrative costs such as advertising of proper notices, property transaction fees, and registration of deeds to include deed covenants. This program, as you recall, was initiated to acquire blighted properties that have been tax and lien delinquent in payment.

Neighborhood Planning

2005 was a remarkable year in that it brought to closure the planning process for four new neighborhood plans. These plans have had extensive community input and represent the beginning of a fresh start for badly deteriorated areas of our community that need focused attention.

Broad Creek Renaissance/Hope VI

The excitement continues to build among residents, realtors and prospective homeowners as the first homes have been completed along Ballentine Boulevard. In fall 2005, we will have the distinction once again of hosting HOMEARAMA, this time at the Broad Creek Renaissance project. The FY 2006 Approved Budget provides \$125,000 (\$75,000 in the Capital Budget and \$50,000 in the Operating Budget) to help with additional amenities and sprucing up entries and travel routes to welcome our guests to this new urban living opportunity.

The City's FY 2006 Approved Capital Budget contains \$1.3 million for the continued infrastructure improvements in HOPE VI. In addition, \$1 million will be set aside to use toward the funding of various City initiatives such as the community center,

library, retail center, Moton Circle improvements, street resurfacing and undergrounding of utilities in the surrounding Broad Creek area.

By the time Broad Creek is completed, it will have well over 234 new homes and 400 new rentals, for a total of 634 new housing units and related amenities to meet the needs of a diverse population of residents of all ages and interests.

Fairmount Park

As anyone who drives up Lafayette Boulevard can tell, big changes are underway in the Fairmount Park neighborhood. With the completion of the neighborhood plan, the City is making a significant investment in major infrastructure improvements, including roads and sewers. Major street work will continue as we conduct \$707,000 worth of street resurfacing concurrent with the utilities work currently underway. In addition, \$250,000 is provided in order for the City to purchase various blighted properties for redevelopment on Lafayette Boulevard.

Shoop Park will be the site for a new program entitled the Model Block Initiative. Through this Initiative, the City will be making \$250,000 in improvements to Shoop Park that will include inviting leisure activities for families, better landscaping to enhance the green space, play equipment, park furniture, basketball court resurfacing, restroom upgrades and baseball field improvements. This work by the City will be matched by the availability of Residential Property Improvement Assistance Loans and Grants to be made available to surrounding homeowners to help improve their homes. The Come Home to Norfolk Now Homeownership Program will also provide valuable home buyer purchase assistance to those trying to enter the market as first time home owners.

Overall, we hope that this progressive program in a concentrated area will herald a renewed confidence in the quality of life for Fairmount Park residents by being a model block for the rest of Fairmount Park to emulate.

Greater Wards Corner

Wards Corner has also completed its planning process with the City Council's adoption of the Greater Wards Corner Comprehensive Plan. During last year while the plan was under development, the City acquired and renovated the Jewish Community Center on Newport Avenue and has reopened it as the new Norfolk Fitness and Wellness Center. Additional funding is included in the Approved Budget to cover continued renovation costs of \$667,000 as well as the first year's operating costs of more than \$1 million for one-time and ongoing expenses for this new and unique wellness facility.

In FY 2006, the City will be focusing on two other major initiatives in this plan. The first is a blight study for \$50,000 to be conducted by NRHA to assess current conditions in the Denby Park, Monticello Village and the Oakdale Farms areas. The

results of the study will guide the City in determining what types of redevelopment or conservation work will be required.

Second, in the Titustown area, the City will be working with businesses to establish a Neighborhood Business Improvement Initiative. \$250,000 is being earmarked in the Capital Budget for streetscape and façade improvements. This will be done in collaboration with business owners willing to upgrade their storefronts and parking lots to create a more customer friendly shopping environment.

The City also will be working to address the rehabilitation of multi-family complexes in the Titustown area. These efforts will not be just bricks and mortar, but aggressive code enforcement and policing, as well as working with the landlords to establish and enforce rental property standards. \$300,000 is provided to facilitate such opportunities.

Most exciting is the fact that Wal-Mart will soon be breaking ground for their new Super Center in the Southern Shopping Center area. This development is considered the “spark plug” to re-energizing the Little Creek/Wards Corner redevelopment effort. Funds are being set aside for traffic enhancements in the Sewells Point area which have a direct impact on east–west Little Creek traffic flow.

Southside Master Plan

The Southside neighborhoods set to work two and one half years ago on a comprehensive strategic plan to revitalize the neighborhoods. The Southside Coalition and the Southside Task Force have been instrumental in helping to bring this plan to final adoption by the City Council this last year. The FY 2006 Approved Budget includes \$100,000 to purchase vacant parcels and structures for redevelopment in the Wilson Road Corridor.

The City is continuing to talk with the owners of the Gideon’s Plaza about the redevelopment of this site. The budget sets aside \$505,000 for required infrastructure improvements that will be needed to finish land assembly and provide necessary infrastructure improvements.

Additional funding of \$265,000 is included for the Southside – Campostella Heights – education resource center, the last of four centers to be developed. In addition, the City will be requesting that NRHA examine the feasibility of declaring Campostella Heights a conservation district. The adjacent community of Campostella is already a conservation area.

While much time is spent on the physical elements to neighborhood revitalization, when we discuss Community Building our “human” infrastructure must not be forgotten. The mental and physical health of our residents needs to continue as a high priority in assuring that we maintain a quality of life that all residents deserve.

Public Health

For this next year, the FY 2006 Approved Budget augments our community health outreach efforts by providing \$20,000 to disseminate targeted public information and other prevention programs to address chronic health problems in Norfolk. The City has excessive (as compared to other cities' statistics) incidents of high blood pressure, diabetes, low weight births, and other illnesses that through prevention and public education programs can be improved. The improvement of these health elements can have a profound impact on family life, employment and overall well being.

Community Services Board

The FY 2006 Approved Budget includes an increase of \$513,000 for a total investment of \$2,775,800. In addition, I have provided CSB with funding to support six school counselor positions.

Department of Cultural Facilities, Arts and Entertainment (CFAE) **Office of Cultural Affairs and Special Events (OCASE)** **Public Arts Program**

Last year, the City Council determined to do more to foster art and culture across the City and, in this regard, formed a Public Arts Commission. The Commission has been charged with formulating a program and funding strategy for the development of public art projects that reflect the diversity of the community. The FY 2006 Budget incorporates funding for the public art program. This program will allocate one percent of specified construction projects valued over \$500,000 to allow us to proceed with specific funding for Public Art. Altogether, this approach makes approximately \$750,000 available for strategically placed public art.

Additionally, funding is provided for the creation of the Office of Cultural Affairs and Special Events in the Department to broaden the City's outreach and coordination of Citywide cultural, arts and humanities programs. Responsibilities of this Office will include the oversight of the newly renovated Selden Arcade as well as the Public Art program.

These additional responsibilities to the Department of Civic Facilities broaden the mission and vision of the department. To properly reflect these additional responsibilities and new focus, I plan to rename the department the Department of Cultural Facilities, Arts and Entertainment.

The Botanical Garden

The Approved Capital Budget provides for \$1.4 million as the City's match to private fundraising to complete the construction of the Children's Garden at the Botanical

Garden. Once completed, it is expected to be one of the largest on the East Coast.

The Zoo

The FY 2006 Approved Budget provides \$1.5 million in construction funds for the new animal hospital at the Zoo. The hospital will allow us to maintain full accreditation by the American Zoological Association and will equip us to continue to provide state-of-the-art care to our animals. This next year, the Zoo also plans to initiate the Phase I plans of the recently adopted new Zoo Master Plan which includes six new animal exhibits, a new children's area (carousel, playground, and indoor play areas for animal interaction and education), and improvements to the zoo's plaza.

The Chrysler Museum of Art

\$1 million is included as part of the City's five-year match for the Chrysler Museum of Arts \$40 million Campaign for the Future. This campaign is designed to assist in stabilizing the overall endowment needed to maintain the museum's operation on an ongoing basis and has received a warm response by matching private donations. In addition, \$109,000 each year is programmed over the next two years to restore funds for emergency repair work required as a result of Hurricane Isabel damage. Under the historical agreement, the City is responsible for these repairs. The Chrysler Museum board used their capital reserve to advance the work and the City should reimburse these funds. FEMA has determined the repairs to be ineligible for reimbursement.

Scope and Chrysler Hall

The Capital Budget provides \$1 million in funding for new rigging for SCOPE, \$505,000 for the next two years for the renovation of the Chrysler restrooms, and \$200,000 for SCOPE exhibit hall renovations.

Nauticus

In FY 2005, the City provided Nauticus with an \$850,000 appropriation. The FY 2006 Approved Budget provides Nauticus with an additional \$250,000 appropriation – almost 30 percent above the FY 2005 funding level. These additional dollars will assist Nauticus in maintaining current levels of service. An additional \$505,000 in capital funding in FY 2006 and \$750,000 in FY 2007 is provided for the new exhibit development. This capital infusion constitutes a start towards our commitment to enhance the quality of exhibits in this community investment.

Libraries

We are committed to moving forward with the long-range plan for anchor branch libraries. The FY 2006 Capital Budget includes \$4.3 million which constitutes a

combination of the final payment towards construction of the new branch library in Ocean View (Pretlow) inclusive of \$3.2 million in funding that was borrowed last year for emergency sand replenishment pending FEMA reimbursement from Hurricane Isabel. FEMA continues to dispute the claim with the City and no major reimbursement has been forthcoming. Needing however to move forward, the Approved Budget replenishes the construction funds for the Pretlow Library.

In addition, \$300,000 is provided to enhance materials, hire Computer Aides, and develop new Early Literacy and After School Initiatives. This augmentation represents a 5.2 percent increase over the Library's base budget. Although many have requested over \$500,000 for the Libraries, it is not reasonable to fund to that level with other competing priorities and the tax rate reduction plan.

Recreation, Parks and Open Space

During the last year, the City Council has discussed numerous programmatic areas that we wish to augment, expand or enhance. These areas have specifically been in the areas of code enforcement, youth services and early childhood development. In order to facilitate a heightened degree of focus on these areas, I plan to separate out the functions in the current Department of Neighborhood and Leisure Services. Specifically, I am going to eliminate the current department and create two new departments: the Departments of Recreation/Parks & Open Space and the previously discussed Department of Neighborhood Preservation.

The Department of Recreation/Parks & Open Space will consist of the current Divisions of Recreation, Parks and Forestry, and an Office of Youth. In addition to the current divisions, I am transferring the Division of Cemeteries from Facility and Enterprise Management to the new Department. The Department will have a Division of Recreation and Human Development which will be responsible for all recreation, community sports, senior and therapeutic recreation programs. The other Division will be responsible for green space operations consisting of services related to the planning and management of parks, open space, bike and walking trails, forestry, public rights of way and cemeteries.

An exciting new partnership will be explored with funds in the Approved Budget. \$75,000 is provided to facilitate the design of a partnership to establish a therapeutic aquatics center at Lake Taylor Transitional Home. Locating this needed therapeutic amenity in conjunction with the resources of Lake Taylor could ensure that its use is maximized for therapeutic rehabilitation purposes. While no details have been worked out, the concept has been favorably received by the Executive Director of Lake Taylor.

An Open Space Plan is scheduled to be initiated in FY 2006. Also, \$150,000 is planned for small park improvement projects including a Citywide park facilities study. We continue our program to develop new community centers by providing \$1.5 million for the completion of the Norview Community Center and \$2.2 million for

design work on the Lambert's Point Community Center following the completion of Norview.

Additional work programmed for FY 2006 will include:

- Waterfront beaches and boat ramps (\$1.1 million Willoughby and Haven Creek)
- Continued Renovation of the Lake Taylor soccer fields (\$190,000)
- \$300,000 for general park improvement projects
- \$300,000 for existing recreation center improvements
- \$505,000 for existing neighborhood/multi purpose center improvements

Education

Norfolk has consistently provided funds in excess of the State requirements to meet the needs of public education because it recognizes the need to put our children first. Based on the local match requirements for Virginia Standards of Quality (SOQ), Norfolk has a .26 composite index, which requires \$52.3 million. This year, the Approved Budget provides a local contribution to schools of \$92.6 million, \$40 million more than the State mandated the City to provide. In FY 2006 we continue our commitment to education by allowing \$3.6 million of state sales tax funds to flow to Norfolk Public Schools, and an additional \$730,000 in local funds.

The City's base budget also continues to provide millions of additional dollars for services, such as school nurses, and maintenance of school play equipment, grounds, and athletic fields. Current initiatives also include the existing consortium between the Schools and City to examine health care insurance cost savings.

As in the health care example, there are a number of other potential opportunities where the City and School District could benefit by combining our efforts. Because of the overlap in support services, I am proposing that the City and NPS engage in a Shared Services Study to examine ways of reducing our overhead and administrative costs. It would be our goal to achieve at least two service realignments in our first year of work. Suggested topics of study include: communications and intergovernmental, purchasing, warehousing, fleet services, human services, and others yet to be determined. I propose a facilitated process with the use of an independent consultant to engage the City and NPS staff in a mutual gain brainstorming. By mid-year, we should present a joint report to the City Council and NPS Board.

On the Capital Budget side, the City continues its commitment to provide the needed monies that the State has not funded to renovate or replace our aging educational facilities. In Norfolk, the cost of these needs has more than quadrupled in the last 15 years.

In FY 2006, \$11.2 million is budgeted for the design and construction to replace the existing Coleman Place Elementary School. Concurrently, design (\$500,000) will be initiated for the new Crossroads Elementary School which will be funded for construction after Coleman Place is completed. A total of \$13.0 million will be contributed from local revenue sources for the construction of the schools over the next three years.

The FY 2006 Approved Budget continues to support the ambitious plans of our institutions of higher education. These plans are being funded through unique partnerships with the private sector, the State and the City. They are transforming neighborhoods and bringing new jobs and recognition to Norfolk.

Work has begun on the first phase of Norfolk State University's RISE Center located across Brambleton Avenue from the main campus. When complete, this 140,000 square foot, \$18-million-dollar facility will house a research laboratory, business incubator, offices and classrooms as well as space for workforce development and training. As Norfolk State finalizes its plans, the City stands ready to conclude its Memorandum of Understanding with NSU to provide funding concurrent with the start of the private development initiatives in FY 2007.

The City also continues to fund infrastructure improvements in the neighborhoods surrounding Old Dominion University's Academic Village. With the completion of the first phase, 378 dormitory units and the first retail businesses opened. Design guidelines for a hotel and three office buildings are underway. The last payment of \$1.9 million of the City's commitment to provide \$15 million of public infrastructure continues in the Approved Capital Budget.

Public Safety

Police

The Approved Operating Budget provides for over \$1.8 million in additional operating funds to address the maintenance of equipment, overtime, uniform costs, replacement of body armor/ballistic vests, new guns and holsters, utility and fuel costs, training, rent increases, bicycle replacement, vehicle replacement and the third and final year of the cash match for the Universal Hiring Program Grant.

The Approved Capital Budget continues with the \$3 million for the design of the new facility and renovation of an interim Police Second Precinct facility to make the Wal-Mart Super Store site available. We will be using the former TWA building to house the Second Precinct, during construction which will require design and build-out estimated at a cost of almost \$2 million.

Fire-Rescue

A new initiative designed to provide a structured career development program has been launched over the last year by the Fire-Rescue Department entitled the Master Firefighter's Program. This program is designed to allow firefighters with at least six years of experience the opportunity to complete designated school/training courses that will enhance their skill level and abilities. In this Budget, I am proposing to provide the funds for pay adjustments commensurate with achieving and maintaining this designation not to exceed 15 percent over a five-year period. This investment of approximately \$114,000 a year will be a worthwhile incentive to recognize the efforts of those firefighters seeking further career advancement.

The Approved Budget also provides \$400,000 in additional operating funds to cover the cost of overtime and new FLSA adjustments; \$45,000 to develop an in-house test for fire entry level written exams; and \$40,000 for expanding the medical protocols and guidelines for both pre-employment medical testing and annual medical evaluations for firefighters.

Finally, \$30,000 in funding is provided to assist both Police and Fire to expedite recruitment of new positions as a result of the retirement enhancement program offered in 2005.

Sheriff and Jail

Funds in the amount of \$638,980 are provided to cover the increase in contractual services for both food and medical services. In addition, the City has been advised that the Regional Jail will be initiating the first of a planned five-year fee increase in per diem rates which will cost Norfolk an additional \$182,500 per year.

Commonwealth Attorney

Funding is provided for the addition of three Assistant Commonwealth Attorney positions for the federal Safe Neighborhood Grant program which expires in September 2005. While we are hopeful that this valuable Federal program is renewed, the City is ready to fund, if necessary, this effective Community Prosecution Program. This program focuses on expediting prosecution of gun related crimes in specifically targeted neighborhoods.

Economic Development

As the City attracts more and more private investment, it is necessary to update and improve infrastructure that no longer meets our needs and for public streetscapes. The budget contains funding for the following initiatives: \$1.9 million for Norfolk Redevelopment and Housing Authority work along Hampton Boulevard; \$1 million to improve the streetscape adjacent to Trader Publishing; \$250,000 to begin design and engineering work to realize the long-awaited goal of creating a pedestrian corridor from Granby Street to Waterside Drive; \$4.7 million to improve South Main Street; \$195,000 to improve 1st Street, \$505,000 to continue improvements needed to encourage development in the Atlantic City/Fort Norfolk area, \$300,000 for downtown corridor improvements and \$934,000 to upgrade the Tidewater and Sewells Point infrastructure.

Neighborhood Commercial Corridors

An increase to \$606,000 is provided to support improvement of the commercial corridors. The effects of the City's investment in this program are becoming more noticeable as we see these funds used to provide a needed face lift to neighborhood shopping and business areas.

Norfolk Cruise Terminal

This year, Norfolk will host 50 cruise ship calls, and will bring more than 110,000 passengers and 40,000 crew members to town, each spending an average of \$104 per visit. Holland America, Carnival, Radisson Seven Seas and Celebrity Cruises all continue homeport service, making us a year-round cruise port, and the 12th busiest cruise port in the country.

The Approved Capital Budget contains \$26.3 million in FY 2006 toward the construction of a permanent Norfolk Cruise Terminal, as well as related infrastructure improvements. When completed in calendar year 2006, the terminal will represent a \$36 million investment that will encourage growth in Norfolk's cruise business, meet Homeland Security requirements and provide needed additional space for special events.

In addition to the terminal, the City is planning improvements to Town Point Park in 2007 for \$7.5 million and the addition of a new small boat marina adjacent to the Cruise Terminal/Nauticus in 2007 at a cost of \$550,000. Staff is working to ensure appropriate interim park improvements are made in time for the Jamestown 2007 events.

Conference Center and Parking Garage

The City enters this next fiscal year with plans to construct a Conference Center and parking garage on the old BB&T lot. To begin this effort, \$3 million is for the Center right of way and \$18.5 million from the parking fund is for the garage.

Court House Complex

In 2006, we will begin the process to construct a new consolidated Court House Complex on the existing Civic Center site. This project will begin with \$1 million allocated for initial design next year and will require a total of \$85 million over subsequent years to reach completion. The City also continues to review other financing options for the construction of the new court facility.

Transportation

Transportation and Street Improvements remain a priority funding. We will continue to invest in signal and intersection improvement projects (\$909,000) such as the Brambleton/Botetourt intersection to enhance public safety. Cooperative efforts continue with ODU to make improvements to the 43rd Street corridor. The widening and improvement of this corridor (\$3.8 million) will be matched by a \$1 million commitment from ODU. In the Willoughby area, in partnership with a local developer, we will be able to make needed street widening improvements at the 4th View intersection at a cost of \$606,000 to the City.

A variety of transportation improvements are provided for in the Approved Capital Budget. \$500,000 is provided to complete the rehabilitation of the Brambleton Bridge, thus extending the life span of the bridge and providing aesthetic improvement to this major City arterial. \$505,000 also is provided to make significant infrastructure and drainage improvements to Bay Avenue at the entrance to the Naval Base.

An additional \$505,000 is provided for critically needed repairs to underpasses around the City, including completing the Monticello underpass and beginning design for rehabilitation of another major arterial underpass.

The City's bridge repair and replacement program forestalls more costly repairs and replacement in the future. Thanks to this program, a recent State report found Norfolk to be in compliance with bridge standards and no load restrictions were placed on any Norfolk bridges. \$707,000 is provided in 2006 for this program, which will address both Seeley's Bridge and the Norview Bridge at the airport.

Engineering studies funded at \$200,000 are being undertaken to make informed policy and program decisions about undergrounding throughout the City.

Finally, we have been advised by Hampton Roads Transit (HRT) that they will need a \$1.5 million increase, bringing their total budget to \$4.6 million. It is my recommendation that these funds be set aside in reserve, pending a formal request to HRT to complete an independent professional analysis of their financial conditions and a long-term plan. This is extremely important because as I understand it, the FY 2006 increases will be an annual occurrence over several years. With some type of long-term strategy the City is being required to choose between the lesser of two undesirables – pay more or cut service routes. Neither is an attractive option.

Regional & Other Partnerships

The City continues to be an active participant in numerous regional efforts and partnerships that represent our community's interests. Included in this year's Budget are various adjustments to our costs for participation and/or enhanced services. Because of finite resources, we kept all agencies at level funding with the exception of the following:

- Norfolk Drug Court - \$75,000 (an increase of \$25,000)
- Square One - \$37,336 (an increase of \$12,336)
- Schooner Virginia - \$12,000, new local funding
- Norfolk Conventions and Visitor's Bureau (NCVB)- \$3,200,000 (an increase of \$84,500)
- Norfolk Interagency Consortium (NIC) - \$300,000 (an increase of \$25,000)
- Hampton Roads Economic Development Alliance (HREDA) - \$241,727 (an increase of \$8,627)
- Virginia Municipal League (VML) - \$45,603 (an increase of \$1,703).

Public Accountability

The FY 2006 Approved Budget includes a 1.5 percent General Wage Increase (GWI) for all employees, and 2.5 percent step increases for eligible employees on their anniversary date. The majority of the City employees will be entitled to the step increase, assuring that most City employees receive the equivalent of a four percent salary increase.

Health insurance costs continue to increase at a rate of 8.5 percent, despite our renewed emphasis on wellness and disease management and prevention. In the Approved Budget this year, the City will pay for the entire premium increase.

The funds for the retiree hospitalization assistance were increased by \$100,000 for pending public safety retirements.

The City continues to be committed to open communication with the public. In FY 2006, we are initiating a pilot program to televise Council meetings more than twelve times in the year. The cost to televise all of the formal and informal Council meetings

would require \$450,000-\$575,000 in one-time renovations to the conference room and Council Chambers. Ongoing cost would be an additional \$150,000 annually. The pilot program, at an approximate cost of \$100,000, will allow a year of planning and ironing out the bugs much as is done when the major networks start a new television series.

On the financial management side, the City is in need of a complete replacement of its financial management systems which are over 27 years old and are no longer supported by the original vendor. A Needs Assessment analysis was conducted in 2004 which concluded that a comprehensive system replacement was merited. During the last year, an RFP was issued to select the appropriate vendors for an Integrated Financial Management and Assessments and Collections System. In Fiscal 2006, we will complete the vendor selection process and begin the complex integration process. This effort will require an outlay of almost \$2.9 million in the 2006 Capital Budget, \$3 million in 2007, \$1.1 million in 2008, and take over two years to implement.

As part of our efforts to streamline operations, I am abolishing the Department of Facility and Enterprise Management and will be transferring the bulk of its various functions to the Finance Department. Specifically, the Parking Division, Fleet Maintenance, and Building Maintenance will be transferred and the Department will be renamed the Department of Finance and Business Services (FBS). The Office of Real Estate and Golf Courses will be assigned to the City Manager's Office.

ENTERPRISE FUNDS

Water Fund

The FY 2006 Water Fund Approved Operating Budget is \$73,476,700, a \$1,061,700 increase from the FY 2005 Approved Budget. The Approved Budget continues the rate adjustments adopted by City Council in 2003 of an additional 25 cents per hundred cubic foot. These funds are being utilized to upgrade neighborhood infrastructure, a \$340 million water 10-year capital improvement program.

Wastewater Fund

The FY 2006 Wastewater Fund Approved Operating Budget is \$22,211,400, a \$998,700 increase from the FY 2005 Approved Budget. The proposal includes a 10 cent per hundred cubic foot rate adjustment also adopted in 2003.

Storm Water Management

The Approved Budget for the Environmental Storm Water Utility Fund is \$7,393,000. Over the next year, we will be examining the fiscal capacity of this fund to meet its capital demands.

Consolidated Plan

The Consolidated Plan, funded by the U.S. Housing and Urban Development Department provides Norfolk in FY 2006 with a total of \$10,540,495 in grant funds, which represents a 4.8 percent decrease from FY 2005.

The funds are provided through four entitlement programs: The Community Development Block Grant (\$7,996,433); The HOME Investment Partnership (\$2,242,032); The Emergency Shelter (\$228,559); and The American Dream Down Payment Initiative (\$73,471).

Requests for funds from community organizations and the NRHA were \$15,484,792, more than \$5 million over available funding. It is anticipated, that funding will continue to decrease. As a result, we will continue to assist our community organizations to seek new funding and leverage those resources they already possess.

Conclusion

In conclusion let me say that for Virginia's most "fiscally stressed" City, this is a budget that reflects tremendous accomplishments and great aspirations; it reflects a lot of hard work by people who love their City and it promises a lot more hard work to continue to make things better.

I am very proud to serve such a City as City Manager, and I look forward to managing the momentum that is carrying Norfolk so proudly into the future. As always, I thank our wonderful Budget Staff, the support staff members who make all of us look good, the City's executive team, and each of you.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Regina V.K. Williams".

Regina V.K. Williams
City Manager